

10-1973

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Recommended Citation

Rausch, Barbara I. (1973) "Small Business," *Woman C.P.A.*: Vol. 35 : Iss. 4 , Article 6.

Available at: <https://egrove.olemiss.edu/wcpa/vol35/iss4/6>

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Small Business

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By Way of Introduction . . .

The world of Small Business is indeed a separate world in the business environment — conforming and yet not conforming to the patterns, an anachronism in the eyes of some people yet with some enterprises ahead of their times, often struggling against big business competition and still sometimes unique and unparalleled in their fields, something that would have to be invented if it did not exist!

So, what is this thing, the Small Business? The term was coined by somebody to differentiate it from "Big Business", the industrial giants and the publicly held corporations that are listed in such papers as the Wall Street Journal, from the Big Board to the Over-the-Counter Market. Therefore, it follows that any unincorporated business has to be one of the "smalls", and any corporation that does not sell its shares of stock to the general public falls into the same category.

How Small is "Small Business"?

The answer, of course, is — not small! By number of enterprises the participation of small business is overwhelming: 9,430,000 sole proprietorships, 921,000 partnerships as compared with 1,670,000 corporations according to the *Statistical Abstract of the United States* for 1972. In the sales or gross receipts area, the small business share is still quite impressive — \$234 billion for sole proprietorships, \$87 billion for partnerships and \$1,688 billion for corporations. These figures are based on information for the year 1969 (the latest available) compiled

by the Internal Revenue Service from tax returns filed.

Unfortunately this compilation does

not tell us how many of the corporations are publicly held, but a look at a tabulation by asset-size can give us some clues:

Active Corporations by asset size (1969)

<i>Assets</i>	<i>Percent of Enterprises</i>	<i>Share of Total assets</i>
Under \$100,000	57.6%	1.3%
\$100,000 to \$999,999	35.8%	7.3%
\$1,000,000 to \$9,999,999	5.5%	10.2%
\$10,000,000 to \$24,999,999	.6%	6.0%
\$25,000,000 to \$49,999,999	.2%	5.3%
\$50,000,000 to \$99,999,999	.1%	5.4%
\$100,000,000 to \$249,999,999	.1%	8.7%
\$250,000,000 and over	.1%	55.8%

If we break this down into three categories, we find that 98.9% of all corporations have less than \$10,000,000 in assets and share in 18.8% of the total assets. The middle group with assets between \$10,000,000 but less than \$100,000,000 makes up .9% of the total number and controls 16.7% of the total assets. Finally, the really big corporations, the ones with assets in excess of \$100,000,000, are only one-fifth of one percent of the total number, but they hold 64.5% of the total corporate assets.

Information on new business starts and business failures is compiled by Dun & Bradstreet every year, but the published statistics are limited to new incorporations and to business failures that result in losses to creditors. However, it is obvious that the number of business enterprises is growing as evidenced by these Dun & Bradstreet statistics:

<i>Year</i>	<i>New Incorporations</i>	<i>Business Failures</i>
1969	274,000	9,154
1970	264,000	10,748
1971	288,000	10,326

When a business entity starts having a payroll, its status become established. But aside from the requirement to register as a withholding agent the Internal Revenue Service does not require formal registration for sole proprietors and neither would the majority of the states. Therefore, only the tax files of the IRS would contain complete data on all the "one-man" or "one-woman" business operations started or discontinued every year.

Since, from a standpoint of number of principals involved in a business, the sole proprietorship is as small a business entity as possible, it might well be a good starting point.

"I Just Knew I Could Do a Better Job . . ."

Here, oftentimes, we find people who had been at the receiving end of poor service, who took up "fixing" things as a hobby and became so good at it that it became inevitable for them to convert their hobby into a business. Or it may have been the desire to have a greater share of the gross take that prompted some former employees to go it on their own.

Of course, we find a large number of professionals in this type of enterprise. It appears that the personal service area is the most fertile field for the smallest of the "smalls". It is usually a hard decision to take on that first employee — it means a great deal of expense which can be offset only by a very substantial increase in business volume. The actual wages are probably the least of it — there are payroll taxes and related tax returns, increased formality in record keeping and most likely the need for outside professional help — life becomes complicated.

Will It Be Worth It?

That's a good question! The in-between stage is probably the most difficult to handle, the one that should be passed through as rapidly as possible. It is frustrating and infuriating to find that the employee can "clear" more than the risk-taking entrepreneur, and many a good and knowledgeable proprietor has found it harder to "manage" than to provide first-rate service, sharing the proceeds only with Uncle Sam.

On the bright side, if the business potential is really good and the rough waters of the first venture into being a boss and manager have been overcome, the business grows and prospers, and more than likely the form in which business is conducted will change, also.

Partnership or Corporation?

The initial choice of the form is often made on the basis of tax considerations, but of at least equal importance are such factors as legal liabilities, capital requirements, the number of people involved and their respective functions, the need for continuity of existence and free transferability of the individual's interest in the enterprise. Of course, the "better mousetrap" does not attract just the lone-wolf entrepreneur, in fact, a large number of businesses are started as partnerships or closely-held corporations.

The tax laws which — at least at the present time — favor the corporate form

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with respect to retirement plans undoubtedly are responsible for a large number of incorporations, when otherwise the principals might have chosen the partnership form of doing business. The tremendous increase in the number of professional corporations is a prime example. The medical profession was a leader in allowing its members to incorporate, but since then other professions have followed the example.

Tough Competition

Small Business is in virtually all fields of endeavor. Sometimes it seems hopelessly squeezed out by tough competition from the big publicly-held and well-capitalized corporations. In other areas the small entity has a very definite advantage and provides that very necessary stimulant to our economic system and makes life hard for the big enterprises. No matter which way you look at it, Small Business is a fact of life and a segment of our economy that would be sorely missed if it were to disappear from the scene as the closing of many independently-owned gas stations has just demonstrated.

Our Clients . . . Our Employers

Being a journal published by professional accountants, THE WOMAN CPA will feature this column for the purpose of discussing as many of the accounting-related and strictly business-oriented aspects of the "Smalls" as possible, such as financing and capitalization, taxes and recordkeeping requirements, personnel problems and considerations, and the role of the entrepreneur in general.

There can be no question that the small business entity has great needs for competent professional advice, and a substantial number of the members of both societies serve small business as associates or outside accountants.

Planning is the name of the game — for present success, future growth and for the welfare and benefit of the principals' families.